KASPI.KZ
JOINT STOCK COMPANY

Interim Condensed Consolidated
Financial Information
For the six months ended
30 June 2019 (Unaudited)

Kaspi.kz Joint Stock Company

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Kaspi.kz Joint Stock Company

Statement of Management's Responsibilities
For the Preparation and Approval of the Interim Condensed
Consolidated Financial Information
For the Six Months Ended 30 June 2019 (Unaudited)

Management is responsible for the preparation of the interim condensed consolidated financial information that presents fairly the interim condensed consolidated financial position of Kaspi.kz Joint Stock Company and its subsidiaries ("the Group") as at 30 June 2019, and the results of its operations for the three and six months then ended, cash flows and changes in equity for the six months then ended, in compliance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34").

In preparing the interim condensed consolidated financial information, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IAS 34 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's interim condensed consolidated financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the interim condensed consolidated financial position of the Group, and which enable them to ensure that the interim condensed consolidated financial information of the Group complies with IAS 34;
- Maintaining accounting records in compliance with the legislation of the Republic of Kazakhstan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The interim condensed consolidated financial information of the Group for the six months ended 30 June 2019 was authorized for issue on 12 August 2019 by the Chairman of the Management Board and the Chief Accountant.

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

12 August 2019
Almaty, Kazakhstan

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

To the Shareholders of Kaspi.kz Joint Stock Company

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Kaspi.kz Joint Stock Company and its subsidiaries ("the Group") as at 30 June 2019 and the related interim condensed consolidated statements of profit or loss, other comprehensive income for the three and six months then ended, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

12 August 2019
Almaty, Kazakhstan

Kaspi.kz Joint Stock Company

Interim Condensed Consolidated Statement of Profit or Loss
For the Three and Six Months Ended 30 June 2019 (Unaudited)
(in millions of KZT, except for earnings per share which are in KZT)

	Notes	Six Months Ended 30 June 2019 (unaudited)	Six Months Ended 30 June 2018 (unaudited)	Three Months Ended 30 June 2019 (unaudited)	Three Months Ended 30 June 2018 (unaudited)
REVENUE	4,5,6	**226,862**	**169,132**	**122,504**	**89,880**
Interest Revenue		118,563	91,845	62,473	47,060
Fees & Commissions		77,986	65,490	40,779	33,783
Seller Fees		15,761	7,941	9,140	4,627
Transaction & Membership Revenue		20,170	6,391	11,645	3,952
Other gains/(losses)		(5,618)	(2,535)	(1,533)	458
COST OF REVENUE	7	**(85,324)**	**(70,542)**	**(43,393)**	**(34,890)**
Interest Expenses		(58,841)	(51,244)	(29,992)	(25,216)
Transaction Expenses		(6,213)	(2,749)	(2,896)	(1,414)
Operating Expenses		(20,270)	(16,549)	(10,505)	(8,260)
TOTAL NET REVENUE		**141,538**	**98,590**	**79,111**	**54,990**
TECHNOLOGY & PRODUCT DEVELOPMENT		(9,453)	(7,388)	(4,729)	(3,719)
SALES & MARKETING		(11,494)	(6,811)	(5,978)	(3,499)
GENERAL & ADMINISTRATIVE EXPENSES		(5,703)	(4,331)	(2,797)	(2,820)
PROVISION EXPENSE	8	(23,212)	(19,597)	(12,110)	(12,890)
OPERATING INCOME		**91,676**	**60,463**	**53,497**	**32,062**
INCOME TAX	9	(14,675)	(10,409)	(9,007)	(5,532)
NET INCOME		**77,001**	**50,054**	**44,490**	**26,530**
Attributable to:					
Shareholders of the Company		74,766	47,289	43,919	25,061
Non-controlling Interests		2,235	2,765	571	1,469
NET INCOME		**77,001**	**50,054**	**44,490**	**26,530**
Earnings per share					
Basic and diluted (KZT)		**403**	**300**	**235**	**159**

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Oksana Avdeyeva
Chief Accountant

The notes on pages 8-28 form an integral part of this interim condensed consolidated financial information.

Kaspi.kz Joint Stock Company

Interim Condensed Consolidated Statement of Other Comprehensive Income
For the Three and Six Months Ended 30 June 2019 (Unaudited)
(in millions of KZT)

	Six Months Ended		Three Months Ended	
	30 June 2019 (unaudited)	**30 June 2018 (unaudited)**	**30 June 2019 (unaudited)**	**30 June 2018 (unaudited)**
NET INCOME	**77,001**	**50,054**	**44,490**	**26,530**
OTHER COMPREHENSIVE INCOME				
***Items that will not be reclassified subsequently to profit or loss*:**				
Movement in investment revaluation reserve for equity instruments at fair value through other comprehensive income	(83)	122	(24)	65
Items that may be reclassified subsequently to profit or loss:				
Movement in investment revaluation reserve for debt instruments at fair value through other comprehensive income:				
(Losses)/gains arising during the period	(1,918)	(430)	43	(257)
Reclassification of (losses)/gains included in profit or loss	(609)	(7)	(48)	163
Other comprehensive loss for the period	(2,610)	(315)	(29)	(29)
TOTAL COMPREHENSIVE INCOME	**74,391**	**49,739**	**44,461**	**26,501**
Attributable to:				
Shareholders of the Company	72,246	47,035	43,835	25,077
Non-controlling Interests	2,145	2,704	626	1,424
TOTAL COMPREHENSIVE INCOME	**74,391**	**49,739**	**44,461**	**26,501**

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Oksana Avdeyeva
Chief Accountant

The notes on pages 8-28 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Financial Position
As at 30 June 2019 (Unaudited)
(in millions of KZT)

	Notes	30 June 2019 (unaudited)	31 December 2018
ASSETS:			
Cash and cash equivalents	10	211,935	168,471
Mandatory cash balances with National Bank of the Republic of Kazakhstan		20,786	17,215
Due from banks		28,933	22,872
Investment securities and derivatives	11	436,360	366,631
Loans to customers	12	1,130,868	1,067,002
Property, equipment and intangible assets		56,566	36,688
Other assets		41,862	20,773
TOTAL ASSETS		**1,927,310**	**1,699,652**
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks	13	1,257	49
Customer accounts	14	1,404,554	1,232,920
Debt securities issued		138,327	138,094
Insurance reserves		4,193	4,615
Other liabilities		34,718	20,453
Subordinated debt		89,605	89,603
TOTAL LIABILITIES		**1,672,654**	**1,485,734**
EQUITY:			
Share capital		95,826	54,857
Additional paid-in-capital		506	506
Revaluation reserve of financial assets		787	3,307
Retained earnings		155,090	142,822
Total equity attributable to Shareholders of the Company		252,209	201,492
Non-controlling interests		2,447	12,426
TOTAL EQUITY		**254,656**	**213,918**
TOTAL LIABILITIES AND EQUITY		**1,927,310**	**1,699,652**

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Oksana Avdeyeva
Chief Accountant

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Kaspi.kz Joint Stock Company

Interim Condensed Consolidated Statement Of Changes in Equity
For the Six Months Ended 30 June 2019 (Unaudited)
(in millions of KZT)

	Issued capital	Treasury shares	Additional paid-in-capital	Revaluation reserve of financial assets	Retained earnings	Total equity attributable to Shareholders of the Company	Non-controlling interests	Total equity
Balance at 1 January 2018	**130,144**	**-**	**506**	**3,275**	**37,282**	**171,207**	**9,574**	**180,781**
Net Income	-	-	-	-	47,289	47,289	2,765	50,054
Other comprehensive loss	-	-	-	(254)	-	(254)	(61)	(315)
Total comprehensive (loss)/income	**-**	**-**	**-**	**(254)**	**47,289**	**47,035**	**2,704**	**49,739**
Balance at 30 June 2018 (unaudited)	**130,144**	**-**	**506**	**3,021**	**84,571**	**218,242**	**12,278**	**230,520**
Balance at 31 December 2018	**130,144**	**(75,287)**	**506**	**3,307**	**142,822**	**201,492**	**12,426**	**213,918**
Net Income	-	-	-	-	74,766	74,766	2,235	77,001
Other comprehensive loss	-	-	-	(2,520)	-	(2,520)	(90)	(2,610)
Total comprehensive (loss)/income	**-**	**-**	**-**	**(2,520)**	**74,766**	**72,246**	**2,145**	**74,391**
Change in non-controlling interest due to exchange of treasury shares with Kaspi Bank JSC subsidiary shares	-	40,969	-	-	(31,358)	9,611	(9,611)	-
Dividends declared by subsidiary Kaspi Bank JSC	-	-	-	-	-	-	(2,513)	(2,513)
Dividends declared	-	-	-	-	(31,140)	(31,140)	-	(31,140)
Balance at 30 June 2019 (unaudited)	**130,144**	**(34,318)**	**506**	**787**	**155,090**	**252,209**	**2,447**	**254,656**

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Oksana Avdeyeva
Chief Accountant

The notes on pages 8-28 form an integral part of this interim condensed consolidated financial information.

Kaspi.kz Joint Stock Company

Interim Condensed Consolidated Statement of Cash Flows
For the Six Months Ended 30 June 2019 (Unaudited)
(in millions of KZT)

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	109,470	77,944
Interest paid	(54,961)	(51,342)
Expenses paid on obligatory insurance of individual deposits	(2,042)	(1,485)
Fee & commissions received	112,484	72,381
Fee & commissions paid	(15,481)	(5,986)
Other income received	2,843	4,722
Other expenses paid	(32,851)	(22,379)
Cash flows from operating activities before changes in operating assets and liabilities	119,462	73,855
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets:		
Mandatory cash balances with NBRK	(3,571)	(1,618)
Financial assets at FVTPL	661	(4,201)
Due from banks	(6,351)	(8,256)
Loans to customers	(96,446)	(110,928)
Other assets	(23,333)	276
Increase/(decrease) in operating liabilities:		
Due to banks	1,201	(56,332)
Customer accounts	176,331	26,078
Financial liabilities at FVTPL	3,183	(1,279)
Other liabilities	(16,310)	(6,538)
Cash inflow/(outflow) from operating activities before income tax	**154,827**	**(88,943)**
Income tax paid	(6,921)	(4,813)
Net cash inflow/(outflow) from operating activities	**147,906**	**(93,756)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, equipment and intangible assets	(3,389)	(5,245)
Proceeds on sale of property and equipment	219	26
Proceeds on sale of financial assets at FVTOCI	478,280	126,738
Purchase of financial assets at FVTOCI	(545,504)	(205,549)
Net cash outflow from investing activities	**(70,394)**	**(84,030)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt securities issued	-	(11,570)
Repayment of subordinated debt	-	(3,924)
Dividends paid by subsidiary to non-controlling interests	(2,513)	-
Dividends paid	(30,664)	(923)
Net cash outflow from financing activities	**(33,177)**	**(16,417)**
Effect of changes in foreign exchange rate on cash and cash equivalents	(871)	2,626
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	43,464	(191,577)
CASH AND CASH EQUIVALENTS, beginning of period	168,471	304,839
CASH AND CASH EQUIVALENTS, end of period	**211,935**	**113,262**

During the six months ended 30 June 2019, the Group made non-cash transfer in the amount of KZT 18,171 million. These non-cash transfers were excluded from the interim condensed consolidated statement of cash flows.

On behalf of the Management:

Mikheil Lomtadze
Chairman of the Management Board

Oksana Avdeyeva
Chief Accountant

The notes on pages 8-28 form an integral part of this interim condensed consolidated financial information.

1. Corporate information

General information

Description of Business

Kaspi.kz is guided by its mission "To Improve People's Lives" and thrives to transform, through innovation, the way our customers shop, pay and manage their personal finances. Kaspi.kz is built around three platforms, which form its Ecosystem and includes Marketplace Platform, Payments Platform and Fintech Platform. Collectively, we refer to it as "our Ecosystem" or "Kaspi Ecosystem".

Kaspi.kz Ecosystem

We have developed an integrated consumer-focused Ecosystem of diversified products and services around our three revenue-generating Platforms. Our Ecosystem includes customers, merchants, various service providers and strategic partners. Our Platforms enable the participants to interconnect and interact, thus, creating value for each participant by being a part of the Kaspi Ecosystem. Our Ecosystem has a powerful network effect, which means that the growth and development of one service is contributing to the growth and development of other services.

Kaspi.kz Strategy

We aim to expand Kaspi Ecosystem by developing seamless customer experiences and increasing our share of wallet through innovation and development of new services and categories, as well as by leveraging our big data capabilities and advanced technologies to better identify, analyse and serve the needs of our customers across our platforms.

We are investing into scale and design of our platforms to enable our customers, merchants, various service providers and strategic alliance partners to leverage our economies of scale and capital investment in technology, sales & marketing, mobile, customer acquisition and customer service.

Our Mobile App is at the centre of our strategy and serves as a single window into our entire Ecosystem integrating all our products and services into one convenient and readily available interface. It eliminates the conventional offline/online boundaries in shopping, payments and personal finances, allowing our customers to shop online and in-store, make and receive payments, manage all aspects of their personal finances, including their bank account and debit card, use location services and manage the bonus programme.

Kaspi.kz Segments

Our Ecosystem is built around three Platforms, which are Marketplace, Payments, and Fintech.

Marketplace Platform

Our Marketplace Platform is positioned as the starting point and destination for customer shopping journeys via our Mobile App, website and in-store. Customers come to our Marketplace to buy a broad selection of products from various merchants. We have developed and continue developing mobile, online and QR technology for our customers. Our merchants in turn access a large number of our customers. Through the Marketplace Platform we generate seller fees from merchants.

Payments Platform

The Payments Platform enables our customers to pay for regular household needs, as well as to make online and in-store purchases, and enables seamless online P2P money transfers within and outside the Ecosystem in Kazakhstan and globally to any MasterCard or Visa card. Through the Payments Platform the Company generates transaction fees from merchants and customers, annual fees from customers, as well as interest revenue from interest-free cash balances (current accounts).

Fintech Platform

Our Fintech Platform enables customers to manage their personal finance online and access consumer finance and deposit products and services mainly through the Kaspi Mobile App, and allows the Company to generate interest, fee revenue and membership fees from customers who are members of the Kaspi Red Shopping Club.

Information about the group of companies

Kaspi.kz Joint Stock Company ("the Company") was incorporated in the Republic of Kazakhstan in 2008. The Company is regulated by the National Bank of the Republic of Kazakhstan ("NBRK"). The registered address of the Company is 154A, Nauryzbai Batyr street, Almaty, 050013, the Republic of Kazakhstan.

During the reporting period, there were no changes to the Group structure, except for the acquisition of a 100% share in Kaspi Office LLP (former – Bona Trade LLP) on 7 February 2019 for KZT 258 thousands. This transaction was accounted as an asset acquisition as the Group didn't acquire any significant employees, processes or activities that would constitute a "business" in addition to the real estate and other insignificant assets acquired. Substantially all of the consideration paid has been allocated to the cost of real estate acquired and liabilities assumed.

In June 2019, Kaspi.kz acquired 4.55% of Kaspi Bank JSC shares through the shares exchange of Kaspi.kz repurchased shares for shares of Kaspi Bank JSC.

(in millions of KZT)

As at 30 June 2019 and 31 December 2018, the ultimate shareholders' structure of the Company was as follows:

	30 June 2019 %	**31 December 2018 %**
Ultimate shareholders:		
Baring Vostok Funds	35.23	35.11
Kim Vyacheslav	31.77	33.27
Mikheil Lomtadze	29.00	31.62
Goldman Sachs	4.00	-
Total	**100.00**	**100.00**

This interim condensed consolidated financial information was approved by the Chairman of the Management Board and the Chief Accountant on 12 August 2019.

2. Basis of presentation

This interim condensed consolidated financial information has been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*.

This financial information does not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures, which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2018 prepared in accordance with International Financial Reporting Standards ("IFRS"), such as accounting policies and details of accounts, which have not changed significantly in amount or composition.

The exchange rates at the period-end used by the Group in the preparation of the interim condensed consolidated financial information are as follows:

	30 June 2019	**31 December 2018**
KZT/USD	380.53	384.20
KZT/EUR	433.08	439.37

3. Significant accounting policies

This interim condensed consolidated financial information has been prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments.

The same accounting policies, presentation and methods of computation have been followed in this interim condensed consolidated financial information as were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2018, except for the changes as set out below:

- IFRS 16, Leases

Effective from 1 January 2019, IFRS 16, *Leases* ("IFRS 16") has replaced IAS 17, *Leases* ("IAS 17"). The Group has applied new standard on a modified retrospective basis without restating prior periods. The new standard introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted under IAS 17.

The Group as lessee

The Group as lessee recognizes a right-of-use asset and a corresponding liability to pay future rentals on the consolidated statement of financial position. The asset will be amortised over the shorter of the length of the lease and the useful economic life, subject to review for impairment, and the liability is measured at the present value of future lease payments discounted at the applicable incremental borrowing rate.

The Group recognises lease payments for short-term leases or leases in which the base asset has a low value as an expense during the lease period. In a long-term lease, assets are recognised at the lease start date as right-of-use and a lease liability.

A right-of-use asset is recognised in accounting at initial value inclusive of value added tax – the initial measurement of lease liabilities and lease payments as at the lease start date or before that date less lease facilitating payments received and any initial direct lease costs.

On 1 January 2019 there was no material impact on the Group's consolidated statement of financial position on implementation of IFRS 16.

4. Revenue by Segments

The Group reports its business in three operating segments as described in Note 1 under Kaspi.kz Segments.

(in millions of KZT)

Revenue by segments for the six months ended 30 June 2019 and 2018 is presented below:

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
REVENUE	**226,862**	**169,132**
Marketplace	**15,761**	**7,941**
Seller fees	15,761	7,941
Payments	**25,330**	**9,123**
Interest Revenue	6,838	3,161
Transaction & Membership Revenue	18,492	5,962
Fintech	**185,771**	**152,068**
Interest Revenue	111,725	88,684
Fees & Commissions	77,986	65,490
Transaction & Membership Revenue	1,678	429
Other gains/(losses)	(5,618)	(2,535)

Revenue classification and distribution among segments is performed in accordance with the following guidelines:

Marketplace revenue includes seller fees paid by merchants and other partners when a sale is closed within the Marketplace Platform.

Payments revenue includes transaction fees originated from processing payments for regular household needs, payments for purchases both online and in-store, other debit card transactions, online money wire transfers within the Kaspi Ecosystem, both inside the country and globally, and transactions by SME and corporate customers. It also includes membership and annual fees paid by individual customers, SME and corporate customers for engagement in Kaspi Ecosystem. The Payments Platform segment also derives treasury revenue from cash balances.

Fintech revenue includes interest income from financing customers which is mainly originated online through the Mobile App or to finance purchases on the Marketplace Platform, third party merchant sites and third-party mobile apps.

It also includes banking fees and commissions, membership and other fees paid by customers of Shopping Club, income/loss from foreign exchange revaluation, securities, interbank and derivatives, and fees/commissions from other banking services.

5. Segment Reporting

The Group reports its business in three operating segments as described in Note 1 to the interim condensed consolidated financial information of the Group. The Group decided to combine two platforms Consumer Financial Services Platform and e-Finance Platform into one platform Fintech. The reason for combination is that migration from offline to online & mobile operations is developing rapidly resulting in about 70% of transactions executed in online & mobile. The historical comparative information has been revised to conform to the current presentation.

(in millions of KZT)

The following tables present the summary of each segments revenue, net revenue and net income for the six months ended 30 June 2019 and 2018:

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
REVENUE	**226,862**	**169,132**
Marketplace	15,761	7,941
Payments	25,330	9,123
Fintech	185,771	152,068
NET REVENUE	**141,538**	**98,590**
Marketplace	14,951	7,451
Payments	18,053	5,659
Fintech	108,534	85,480
NET INCOME	**77,001**	**50,054**
Marketplace	9,668	3,776
Payments	9,160	1,643
Fintech	58,173	44,635

6. Revenue

Revenue includes interest revenue, fees, commissions, seller fees, transaction & membership revenue and other gains/(losses).

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
REVENUE	**226,862**	**169,132**
Interest Revenue	118,563	91,845
Fees & Commissions	77,986	65,490
Seller Fees	15,761	7,941
Transaction & Membership Revenue	20,170	6,391
Other gains/(losses)	(5,618)	(2,535)

Interest revenue includes interest originated on loans to customers, securities and deposits placed with banks, only.

Fees & commissions revenue mainly includes banking service fees and commissions.

Banking service fees are charged on a monthly basis, and include the following services of Kaspi Ecosystem, such as access to wide network of Kaspi ATMs with free cash withdrawals up to certain limits, 24-hour service line support, charge-free transfers between Kaspi clients' accounts and bill payments for services via the kaspi.kz website and mobile application, SMS and mobile push notification services.

Seller fees includes fees paid by merchants from shopping transaction originated during both online and in store shopping. The Group earns seller fees when transactions are completed on the Marketplace Platform and are generally determined as a percentage based on the value of merchandise and services being sold by merchants.

(in millions of KZT)

The Group earns transaction and membership revenues when processing payments and engaging customers in the Kaspi Ecosystem. This includes transaction fees paid by merchants when the Group enables various payment and purchase transactions. It also includes membership fees paid by customers and merchants for accessing various Kaspi Ecosystem services.

Other gains/(losses) are mainly due to net gains/(losses) on foreign exchange operations and financial assets and liabilities at fair value through profit or loss. For the six months ended 30 June 2019 and 2018, the net loss on financial assets and liabilities at fair value through profit or loss amounted to KZT 9,281 million and KZT 1,351 million, respectively. For the six months ended 30 June 2019 and 2018, the net gain/(loss) on foreign exchange operations amounted to KZT 4,922 million and KZT 1,190 million, respectively.

7. Cost of revenue

Cost of revenue includes interest expense, transaction expenses and operating expenses which are directly attributable for the Group's everyday operating activities.

	Six months ended 30 June 2019 (unaudited)	**Six months ended 30 June 2018 (unaudited)**
COST OF REVENUE	**(85,324)**	**(70,542)**
Interest Expenses	(58,841)	(51,244)
Transaction Expenses	(6,213)	(2,749)
Operating Expenses	(20,270)	(16,549)

Interest expenses include interest expenses on customer accounts, mandatory insurance of retails deposits and debt securities, including subordinated debt.

Transaction expenses are mainly composed of the costs associated with accepting, processing and otherwise enabling payment transactions. Those costs include fees paid to payment processors, payment networks and various service providers.

Operating expenses include costs incurred to operate retail network, 24-hour call support and communication with customers, product packaging, loan origination and risk assessment, customer deposit acquisition and other expenses which can be attributed to the Group's operating activities related to the origination and delivery of the products and services.

(in millions of KZT)

Employee benefits, depreciation and amortisation expenses and operating lease expenses for the six months ended 30 June 2019 and 2018 are presented as follows:

	Six months ended 30 June 2019 (unaudited)			Six months ended 30 June 2018 (unaudited)		
	Employee benefits	**Deprecia-tion & amortisa-tion**	**Operating lease**	**Employee benefits**	**Deprecia-tion & amortisa-tion**	**Opera-ting lease**
Cost of Revenue	(8,786)	(221)	(736)	(7,634)	(208)	(732)
Sales & Marketing	(150)	-	(12)	(178)	-	(17)
Technology & Product Development	(4,249)	(2,086)	(680)	(3,529)	(1,560)	(407)
General & Administrative expenses	(2,700)	(710)	(1,068)	(1,083)	(730)	(1,485)
Total	**(15,885)**	**(3,017)**	**(2,496)**	**(12,424)**	**(2,498)**	**(2,641)**

(in millions of KZT)

8. Provision expense

The movements in loss allowance for the six months ended 30 June 2019 were as follows:

	Loans to customers			Due from banks	Financial assets at fair value through other comprehensive income		Cash and cash equiva-lents	Other assets	Contin-gencies	Total
	Stage 1	**Stage 2**	**Stage 3 and POCI**	**Stage 1**	**Stage 1**	**Stage 3**	**Stage 1**	**Stage 3**	**Stage 1**	
Loss allowance for ECL as at 31 December 2018	**21,193**	**7,028**	**92,574**	**13**	**409**	**1,940**	**4**	**2,063**	**42**	**125,266**
Changes in provisions										
-Transfer to Stage 1	6,597	(376)	(6,221)	-	-	-	-	-	-	-
-Transfer to Stage 2	(440)	1,415	(975)	-	-	-	-	-	-	-
-Transfer to Stage 3	(2,465)	(5,975)	8,440	-	-	-	-	-	-	-
Net changes, resulting from changes in credit risk parameters	(7,744)	4,290	26,347	(7)	(14)	(1,940)	8	327	7	21,274
Write off, net of recoveries	-	-	(48,793)	-	-	-	-	(8)	-	(48,801)
New assets issued or acquired	12,953	-	-	4	-	-	-	-	-	12,957
Matured or derecognized assets (except for write off)	(5,815)	(448)	(4,756)	-	-	-	-	-	-	(11,019)
Foreign exchange difference	-	-	519	-	-	-	-	(1)	-	518
As at 30 June 2019 (unaudited)	**24,279**	**5,934**	**67,135**	**10**	**395**	**-**	**12**	**2,381**	**49**	**100,195**

(in millions of KZT)

The movements in loss allowance for the six months ended 30 June 2018 were as follows:

	Loans to customers			Due from banks	Financial assets at fair value through other comprehensive income	Cash and cash equivalents	Other assets	Contingencies	Total
	Stage 1	Stage 2	Stage 3 and POCI	Stage 1	Stage 1	Stage 1	Stage 3	Stage 1	
Loss allowance for ECL as at 1 January 2018	**11,154**	**3,351**	**88,009**	**3**	**209**	**14**	**1,741**	**17**	**104,498**
Changes in provisions									
-Transfer to Stage 1	293	(226)	(67)	-	-	-	-	-	-
-Transfer to Stage 2	(476)	482	(6)	-	-	-	-	-	-
-Transfer to Stage 3	(624)	(1,919)	2,543	-	-	-	-	-	-
Net changes, resulting from changes in credit risk parameters	1,601	4,021	12,546	-	-	-	-	-	18,168
Write off, net of recoveries	-	-	(8,109)	-	-	-	(1)	-	(8,110)
New assets issued or acquired	6,943	-	-	3	10	-	56	7	7,019
Matured or derecognized assets (except for write off)	(3,560)	(784)	(1,244)	-	-	(2)	-	-	(5,590)
Foreign exchange difference	-	-	(326)	-	-	1	1	-	(324)
As at 30 June 2018 (unaudited)	**15,331**	**4,925**	**93,346**	**6**	**219**	**13**	**1,797**	**24**	**115,661**

(in millions of KZT)

9. Income tax

The Group provides for taxes for the current period based on the tax accounts maintained and prepared in accordance with the tax regulations of the Republic of Kazakhstan, where the Company and its subsidiaries operate and which may differ from IFRS.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 30 June 2019 and 31 December 2018 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Deferred income tax liabilities as at 30 June 2019 and 31 December 2018 comprise:

	30 June 2019 (unaudited)	**31 December 2018**
Vacation reserve and accrued bonuses	495	510
Property, equipment and intangible assets	(2,383)	(2,343)
Other	3	-
Net deferred tax liability	**(1,885)**	**(1,833)**

Relationships between tax expenses and accounting profit for the six months ended 30 June 2019 and 2018 are explained as follows:

	Six months ended 30 June 2019 (unaudited)	**Six months ended 30 June 2018 (unaudited)**
Net income before income tax	**91,676**	**60,463**
Tax at the statutory tax rate of 20%	18,335	12,092
Non-taxable income	(3,907)	(2,298)
Non-deductible expense	247	615
Income tax expense	**14,675**	**10,409**
Current income tax expense	14,617	10,186
Deferred tax expense	58	223
Income tax expense	**14,675**	**10,409**

During the six months ended 30 June 2019 and 2018, non-taxable income was represented by interest income on governmental and other qualified securities in accordance with the tax legislation.

(in millions of KZT)

	30 June 2019 (unaudited)	31 December 2018
Net deferred tax liability:		
At the beginning of the period	**1,833**	**424**
Change in deferred income tax balances recognized in consolidated equity	(6)	(10)
Change in deferred income tax balances recognized in consolidated profit or loss	58	1,419
At the end of the period	**1,885**	**1,833**

10. Cash and cash equivalents

	30 June 2019 (unaudited)	31 December 2018
Cash on hand	77,324	88,374
Current accounts with other banks	27,385	13,613
Short-term deposits with other banks	71,838	64,013
Reverse repurchase agreements	35,388	2,471
Total cash and cash equivalents	**211,935**	**168,471**

As at 30 June 2019 and 31 December 2018, the fair value of collateral of reverse repurchase agreements, which were classified as cash and cash equivalents, amounted to KZT 36,867 million and KZT 3,336 million, respectively.

11. Investment securities and derivatives

	30 June 2019 (unaudited)	31 December 2018
Total financial assets at FVTOCI	436,360	356,689
Total financial assets at FVTPL	-	9,942
Total investment securities and derivatives	**436,360**	**366,631**

	30 June 2019 (unaudited)	31 December 2018
Debt securities	436,064	356,311
Equity investments	296	378
Total financial assets at FVTOCI	**436,360**	**356,689**

(in millions of KZT)

	A- and higher	BBB+ to BBB-	BB+ to B-	Total
Investment securities and derivatives as at 30 June 2019 (unaudited)	2,491	400,908	32,961	436,360
Investment securities and derivatives as at 31 December 2018	1,799	322,683	42,149	366,631

As at 30 June 2019, all investment debt securities at FVTOCI of the Group are classified in Stage 1 according to IFRS 9.

As at 30 June 2019, financial assets at FVTOCI increased in comparison to 31 December 2018 due to purchases of discount notes of the NBRK at the notional amount of KZT 345,436 million and repayments at the notional amount of KZT 251,450 million.

As at 30 June 2019, financial liabilities at FVTPL included swap and spot instruments in the amount of KZT 13 million with a notional amount of KZT 60,788 million and forwards in the amount of KZT 3,170 million with a notional amount of KZT 191,100 million. These financial liabilities at FVTPL are disclosed within other liabilities in the interim condensed consolidated statement of financial position as at 30 June 2019. As at 31 December 2018, financial assets at fair value through profit or loss included swap and spot instruments in the amount of KZT 98 million with a notional amount of KZT 63,408 million and forwards in the amount of KZT 9,844 million with a notional amount of KZT 135,513 million.

As at 30 June 2019 and 31 December 2018, restricted deposits included in due from banks with high credit ratings in favour of international payments systems amounted to KZT 14,497 million and KZT 6,754 million, respectively and in favour of non-deliverable forwards amounted to KZT 13,714 million and KZT 11,568 million, respectively.

12. Loans to customers

	30 June 2019 (unaudited)	31 December 2018
Fintech	1,228,216	1,187,797
Less: allowance for impairment losses (Note 8)	(97,348)	(120,795)
Total loans to customers	**1,130,868**	**1,067,002**

Movements in allowances for impairment losses on loans to customers for the six months ended 30 June 2019 and 2018 are disclosed in Note 8.

As at 30 June 2019 and 31 December 2018, accrued interest of KZT 16,366 million and KZT 31,883 million, respectively, was included in loans to customers.

(in millions of KZT)

The following tables set forth the Group's outstanding NPLs as at the dates indicated:

	Gross NPLs	Allowance for impairment	Allowance for impairment to gross NPLs
Fintech	109,917	97,348	89%
Total non-performing loans to customers as at 30 June 2019 (unaudited)	**109,917**	**97,348**	**89%**

	Gross NPLs	Allowance for impairment	Allowance for impairment to gross NPLs
Fintech	106,886	120,795	113%
Total non-performing loans to customers as at 31 December 2018	**106,886**	**120,795**	**113%**

Provision expense on loans to customers for the six months ended 30 June 2019 and 2018:

	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
Provision expense on loans to customers:		
Fintech	(24,827)	(19,597)
	(24,827)	**(19,597)**

As at 30 June 2019 and 31 December 2018, the Group did not provide loans which individually exceeded 10% of the Group's equity.

As at 30 June 2019 and 31 December 2018, the gross carrying amount and related loss allowance on loans to customers by stage were as follows:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount	1,039,579	21,343	167,294	1,228,216
Loss allowance	(24,279)	(5,934)	(67,135)	(97,348)
Carrying amount as at 30 June 2019 (unaudited)	**1,015,300**	**15,409**	**100,159**	**1,130,868**

(in millions of KZT)

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
Gross carrying amount	954,160	24,481	195,371	13,785	1,187,797
Loss allowance	(21,193)	(7,028)	(81,611)	(10,963)	(120,795)
Carrying amount as at 31 December 2018	**932,967**	**17,453**	**113,760**	**2,822**	**1,067,002**

During the six months ended 30 June 2019 the write off, net of recoveries includes KZT 31,587 million of non-retail loans of which KZT 13,781 million and KZT 17,806 million belongs to POCI and non-POCI loans respectively.

As at 30 June 2019 and 31 December 2018, commitments on loans and unused credit lines represented by revocable loans amounted to KZT 72,117 million and KZT 61,320 million, respectively.

13. Due to banks

	30 June 2019 (unaudited)	31 December 2018
Repurchase agreements	1,257	49
Total due to banks	**1,257**	**49**

As at 30 June 2019 and 31 December 2018, accrued interest of KZT 7 million and KZT Nil, respectively, was included in due to banks.

Fair value of collateral of repurchase agreements, which were classified as due to banks as at 30 June 2019 and 31 December 2018, amounted to KZT 1,296 million and KZT 51 million, respectively.

14. Customer accounts

	30 June 2019 (unaudited)	31 December 2018
Individuals		
Time deposits	1,163,269	1,025,099
Current accounts	165,983	124,971
Total due to individuals	**1,329,252**	**1,150,070**
Corporate customers		
Time deposits	47,531	41,684
Current accounts	27,771	41,166
Total due to corporate customers	**75,302**	**82,850**
Total customer accounts	**1,404,554**	**1,232,920**

As at 30 June 2019 and 31 December 2018, accrued interest of KZT 9,170 million and KZT 7,573 million, respectively, was included in customer accounts.

As at 30 June 2019 and 31 December 2018, customer accounts of KZT 9,178 million and KZT 7,997 million respectively, were held as security against loans, letters of credit, guarantees issued by the Group and other transactions related to contingent obligations.

As at 30 June 2019 and 31 December 2018, customer accounts of KZT 105,990 million (7.6%) and KZT 78,531 million (6.4%), respectively, were due to the top twenty customers.

15. Fair value of financial instruments

a. Fair value of financial instruments

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

b. Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

(in millions of KZT)

Financial assets/financial liabilities	Fair value as at 30 June 2019 (unaudited)	Fair value as at 31 December 2018	Fair value hierarchy	Valuation technique(s) and key input(s)
Non-derivative financial assets at FVTOCI (Note 11)	435,979	353,201	Level 1	Quoted bid prices in an active market.
Non-derivative financial assets at FVTOCI (Note 11)	311	310	Level 2	Quoted prices in markets that are not active or DCF method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Non-derivative financial assets at FVTOCI	-	3,108	Level 2	DCF method. Discounted cash flows based on observable market yield for similar quoted debt instruments.
Unlisted Equity investments classified as financial assets at FVTOCI (Note 11)	70	70	Level 3	Adjusted net assets based on most recent published financial statements of unlisted companies with discount for marketability and liquidity. Discount ratios varies from 10% to 30%.
Derivative financial assets (Note 11)	-	9,942	Level 2	DCF method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Derivative financial liabilities (Note 11)	3,183	-	Level 2	DCF method. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

(in millions of KZT)

c. Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

Except as detailed in the following table, management of the Group considers that the carrying amount of financial assets and financial liabilities recognised in the interim condensed consolidated financial information approximate their fair values.

	30 June 2019 (unaudited)		
	Carrying amount	**Fair value**	**Fair value hierarchy**
Loans to customers	1,130,868	1,138,981	Level 3
Due from banks	28,933	28,855	Level 2
Customer accounts	1,404,554	1,388,914	Level 2
Debt securities issued	138,327	134,246	Level 1
Subordinated debt	89,605	83,720	Level 1,2*

	31 December 2018		
	Carrying amount	**Fair value**	**Fair value hierarchy**
Loans to customers	1,067,002	1,090,414	Level 3
Due from banks	22,872	22,500	Level 2
Customer accounts	1,232,920	1,205,660	Level 2
Debt securities issued	138,094	133,085	Level 1
Subordinated debt	89,603	83,320	Level 1,2*

*As at 30 June 2019 and 31 December 2018, fair value of subordinated debt that was measured using Level 2 valuation technique amounted to KZT 58 million and KZT 11 million, respectively.

Loans to customers

Loans to individual customers are made at fixed rates. The fair value of fixed rate loans has been estimated by reference to market rates available at the reporting date for loans with a similar maturity profile.

Debt securities issued, subordinated debt

Debt securities issued and subordinated debt are valued using quoted prices.

Customer accounts

The estimated fair value of term deposits is determined by discounting contractual cash flows using interest rates currently offered for deposits with similar terms. For current accounts, the Group considers fair value to equal carrying value, which is equivalent to the amount payable on the balance sheet date.

Due from banks

The estimated fair value of term due from banks is determined by discounting the contractual cash flows using interest rates currently offered for due from banks with similar terms.

(in millions of KZT)

Due to banks

The estimated fair value of due to banks is determined by discounting the contractual cash flows using interest rates currently offered for due to banks with similar terms.

Assets and liabilities for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.

16. Transactions with related parties

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. In the ordinary course of business, the Group provides normal financial services and enters into transactions with its related parties on terms similar to those offered to non-related parties. The Group had the following transactions outstanding as at 30 June 2019 and 31 December 2018 with related parties:

	As at 30 June 2019 (unaudited)		As at 31 December 2018	
	Transactions with related parties	**Total category as per financial statements captions**	**Transactions with related parties**	**Total category as per financial statements captions**
Interim condensed consolidated statement of financial position				
Loans to customers	1,445	1,228,216	1,529	1,187,797
- key management personnel of the Group	1,445		1,518	
- other related parties	-		11	
Allowance for impairment losses on loans to customers	-	(97,348)	(1)	(120,795)
- key management personnel of the Group	-		-	
- other related parties	-		(1)	
Customer accounts	23,797	1,404,554	11,603	1,232,920
- key management personnel of the Group	13,160		4,103	
- other related parties	10,637		7,500	

(in millions of KZT)

Compensation to directors and other members of key management is presented as follows:

	Six months ended 30 June 2019 (unaudited)		Six months ended 30 June 2018 (unaudited)	
	Transactions with related parties	**Total category as per financial statements caption**	**Transactions with related parties**	**Total category as per financial statements caption**
Compensation to key management personnel:				
Employee benefits	(568)	(15,885)	(554)	(12,424)

During the six months ended 30 June 2019 and 2018, interest income from transactions with key management personnel amounted to KZT 81 million and KZT 52 million, respectively. During the six months ended 30 June 2019 and 2018, interest expense from transactions with key management personnel amounted to KZT 38 million and KZT 20 million, respectively, and other related parties amounted to KZT 66 million and KZT 163 million, respectively. During the six months ended 30 June 2019 and 2018, transaction costs attributable to loans to customers and paid to other related parties on an arm's length basis, amounted KZT 4,921 million and KZT 1,802 million, respectively.

17. Regulatory matters

The management of JSC Kaspi Bank (subsidiary of the Company) monitor capital adequacy ratio based on requirements of standardized approach of Basel Committee of Banking Supervision "Basel III: A global regulatory framework for more resilient banks and banking systems" (December 2010, updated in June 2011). The capital adequacy ratios calculated on the basis of JSC Kaspi Bank's consolidated financial statements under Basel III are presented in the following table:

	30 June 2019 (unaudited)	**31 December 2018**
Capital adequacy ratios:		
Tier 1 capital	17.2%	16.8%
Total capital	22.9%	23.0%

As at 30 June 2019 and 31 December 2018, JSC Kaspi Bank had complied with NBRK's capital requirements. The following table presents the Bank's capital adequacy ratios in accordance with the NBRK requirements:

	30 June 2019 (unaudited)	**31 December 2018**
Capital adequacy ratios:		
Ratio k1	11.5%	11.4%
Ratio k1.2	11.5%	11.4%
Ratio k.2	15.3%	15.7%

18. Subsequent events

The management is not aware of any material events subsequent to the reporting date.